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CENTRAL INTELLIGENCE AGENCY
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REPORT NO.

COUNTRY China

SUBJECT Economic and Political Information: Possible Effect on Shanghai of Communist Military Activities

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Economic Situation 25X1X

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1. Civil war and government restrictions have brought on a shortage of machinery, repair parts, and raw material in Shanghai, leaving certain plants inoperative and resulting in the removal of other plants to Hongkong and south China. All this contributes to the increased unemployment. However, capital continues to pour into Shanghai and is one of the causes of the rising inflation.

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2. Shanghai offers a haven to a growing number of refugees. Those from the north are usually wealthy, while those from central China are poor and bitter toward both the Communists and the Nationalists. The poorer refugees go to Shanghai for these reasons:
- (a) To avoid the civil war, in which they are considered enemies by both sides. They often find their property confiscated and their friends and relatives shot for cooperating or not cooperating with one side or the other.
 - (b) To escape army service with both sides. The government draft policy is cruel and brutal in rural area cities such as Shanghai, where the annual draft is about 6,000 men.
 - (c) To seek employment.
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Communists in Shanghai

3. Of the estimated one and one half million workers in Shanghai, about thirty per cent are Communist followers. All of the million and a half are anti-government. The Communists' strength is considered weak and only about five per cent of the Communist followers are Communists.
4. The Communists have many legitimate grievances which they exploit, but they withdraw before police intervention, with the result that many arrested workers are not Communists.

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Possibility of Violence in Shanghai

5. Labor groups are expecting trouble in Shanghai in June. They do not expect the government to defend Shanghai and are secretly attempting to organize one hundred thousand men to defend the city, but they have no weapons.

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8. The Communists are expected to cross the Yangtze River this summer and drive on Soochow. If Soochow falls, the government will withdraw from Nanking and Shanghai without a fight.

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